



## **Treatment of unilateral refusals to license and compulsory licensing in Australia**

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## A Introduction

1. In Australia refusals to grant licences to work intellectual property may, in the case of patented subject matter, be in breach of provisions in the Patents Act 1990, and in the case of material that is the subject of copyright, of certain provisions of the Copyright Act 1968.<sup>1</sup> Additionally, such refusals can breach the Trade Practices Act 1974, which is Australia's primary competition legislation.<sup>2</sup> Although some exceptions to liability under the Trade Practices Act may apply when conditions of agreements and licences relating to intellectual property are involved, the exercise of intellectual property rights does not enjoy a comprehensive exemption from the operation of competition laws in Australia.
2. Having said that, in Australia, as elsewhere, IP rights are a form of property. As with other property rights, ownership of IP confers a right of exclusion. Qualifying the scope for exclusion converts the property rule into a form of liability rule – that is, a rule that allows for access, subject to the meeting of conditions, which may go also to the issue of compensation.<sup>3</sup>
3. As a general matter, property rules are preferable to liability rules when the entitlement can be allocated to the party that is best placed to determine the costs and benefits associated with alternative uses of the resources at issue. If transactions costs are reasonably low, properly-defined rights will be reallocated through trade into their most highly valued uses. Putting distributional consequences aside, it is only when transactions costs are high that liability rules are needed to ensure that socially efficient decisions are taken.
4. The case for imposing liability rules has generally been clearest in respect of certain aspects of copyright. The high transactions costs that would be involved in negotiating licences for low value transactions have been a factor in the fair dealing

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<sup>1</sup> References to the "Patents Act" or "PA" and the "Copyright Act" or "CA" are to *Patents Act* 1990 (Cth) and *Copyright Act* 1968 (Cth). Compulsory licensing in the Patents Act and Copyright Act are discussed below at ¶¶ 28-29 and ¶¶ 30-33, respectively.

<sup>2</sup> References to the "Trade Practices Act" or "TPA" are to *Trade Practices Act* 1974 (Cth).

<sup>3</sup> See generally Guido Calabresi and A. Douglas Melamed "Property Rules, Liability Rules and Inalienability: One View of the Cathedral" 85 Harv. L. Rev. (1972) 1089.

exceptions provided in Australia's copyright legislation, as well as in the scheme of statutory licences.<sup>4</sup> Most recently, the copyright legislation has been changed to limit rights owners' ability to prevent the development of software that inter-operates with software over which they hold rights.<sup>5</sup>

5. It has generally been assumed – subject to the exceptions discussed below – that owners of patents and prospective users would be in a position to bargain to socially efficient outcomes, including in terms of licences. It has, in other words, been assumed that should it be value-creating on net for a licence to be granted, private negotiations would lead to that outcome. The transactions costs that may lead to “negotiation failure” in the case of copyright have not been seen as material in respect of patented subject matter.
6. This assumption may need to be reconsidered in the light of change in the scope of patented subject matter. Briefly put, the growth of software patenting, and most recently, of business method patents, has imported into the patent domain some of the efficiency considerations that underpin the use of liability rules in the copyright laws. So has the patenting of genetic elements. Given these changes it is timely to review the desirability and possible scope of provisions that create an obligation to license in respect of patents.
7. The potential social costs of obligations to license are obvious. To begin with, mandatory licensing may impose allocative efficiency losses if it undermines socially desirable price discrimination.<sup>6</sup> Additionally, to the extent to which they reduce the anticipated return on resources invested in innovation, mandatory licensing provisions may reduce R&D to below the socially desirable level. This harms dynamic efficiency, which is widely recognised as the key to economic growth.

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<sup>4</sup> Distributional concerns are also relevant to the development of these aspects of Australia's copyright laws.

<sup>5</sup> See ss. 47B-47H of the Copyright Act, implementing the *Copyright Amendment (Computer Programs) Bill* 1999.

<sup>6</sup> On the potential allocative efficiency of price discrimination in respect of innovations, see Jerry Hausman and Jeffrey MacKie-Mason “Price Discrimination and Patent Policy” 19 Rand J. of Economics (1988) 253.

8. At the same time, mandatory licensing may create social gains. When the transactions costs involved in negotiating to efficient licences are high – for example, because they would involve a multiplicity of parties, creating the potential for free-rider and hold-out problems – the ability to seek such a licence may facilitate the negotiation process and provide a remedy should it fail. As well as being a potential remedy to negotiating failure, mandatory licensing may be an effective sanction for instances in which intellectual property rights are abused – for instance, by being used to seek market power above and beyond that inherent in the grant of the right. Knowledge that such a penalty may be imposed can itself help secure compliance with the intellectual property laws and the competition laws.
9. The key question then is how best to maximise social welfare, keeping in mind that there are some situations in which compulsory licensing may be part of a necessary balance.

## **B Australian law on the compulsory licensing of intellectual property**

10. In Australia, provisions that can compel compulsory licensing are contained first, in the IP laws themselves, which define the scope of and limits on the property rights at issue, and second, in the Trade Practices Act. Putting aside common law rights in respect of trade secrets, the intellectual property laws and the Trade Practices Act are Commonwealth statutes, with a status equivalent to federal laws in the United States.
11. As regards the intellectual property statutes, sections 133-135 of the Patents Act contain a general provision regarding compulsory licensing, while the Copyright Act contains a number of specific rules regarding access to copyright material. In compliance with Australia's obligations under TRIPs, there are no compulsory licensing provisions relating to trademarks.
12. At a more general, economy-wide level, the Trade Practices Act contains a number of provisions that might be used to compel licensing of intellectual property, as well as of other forms of property rights. The relevant provisions include:
  - Section 46, which targets the misuse of market power;
  - Section 45, which targets collusive behaviour; and

- Sections 4D and 47, which concern exclusionary provisions and exclusive dealing.
  - Finally, Part IIIA, which provides a general access regime, exempts intellectual property.
13. Section 51(3) TPA provides some exceptions to the restrictive trade practices provisions, although not to liability under section 46, or under section 48 (which establishes a *per se* prohibition on resale price maintenance).
  14. I will begin by considering the relevant provisions in the intellectual property legislation and then turn to the provisions in the Trade Practices Act.

### **The copyright and patent laws**

15. Before going on to discuss compulsory licensing provisions under the Patents Act, it should be noted briefly that Australian copyright and patent laws take very different approaches to evaluating when such licences are appropriate. Whereas the Patent Act contains a single, broad provision allowing for orders compelling licensing, the **Copyright Act** contains a number of distinct rules that apply in very specific circumstances. Some of these circumstances relate to the recording of musical works (ss. 54-64 CA), the broadcasting of sound recordings (ss. 108-109 CA), the recording or filming of works for ephemeral broadcasts (ss. 47(3), 70(3), 107(3) CA), copying of literary works by educational institutions or by institutions assisting persons with intellectual or reading disabilities (ss. 135ZJ-135ZM, 135ZP, 135ZS, 135A-135ZA CA), and the Crown use of copyright (s. 183 CA). Each rule provides its own standards for requiring and implementing licensing and permitted use, instead of applying a case-by-case test, as under the Patents Act.
16. As noted above, there are efficiency justifications for at least some of these provisions. These relate to the transactions costs that would be incurred in securing licences for low-value uses and for composite uses. There is also a lively debate as to whether these justifications remain given developments in information technology. The Government, through the amendments it has made to the Copyright Act to accommodate digitalisation, has clearly signalled its view that the case for these provisions remains intact. This is consistent with the recommendations of the Intellectual Property and Competition Policy Review Committee (the “IPCRC” or the

“Committee”), which in September 2001 delivered its report to the Australian Government on the interaction of intellectual property and competition laws.<sup>7</sup>

17. Taking that as given, a current issue of concern is with the growing use of contract to displace or qualify limitations on the rights of copyright owners. This is a matter currently being reviewed by the Copyright Law Review Committee, and may call for further amendment to the Copyright Act.
18. With respect to patents, **Section 133 of the Patents Act** provides that an order compelling licensing may be awarded if a Federal Court is satisfied that

“(a) the reasonable requirements of the public with respect to the patented invention have not been satisfied; and

(b) the patentee has given no satisfactory reason for failing to exploit the patent.”

The crux of this provision is the phrase “reasonable requirements of the public”, which depends on whether Australian industry is unfairly prejudiced, or demand in Australia for the patented product is not “reasonably met”, because of the patent holder’s failure to manufacture the patented product or process in sufficient volume, or to grant licences on reasonable terms.

19. It should be noted that the extent of this provision’s impact is unclear, as it has not been effectively tested in court. As a result, its real value may be in forcing inter-party negotiations, and, more specifically, in strengthening the bargaining position of potential licencees. This view was put with some strength by patent attorneys in the Submissions made to the Intellectual Property and Competition Review Committee.
20. However, as the Committee noted, this provision seems poorly aligned with the goals of the system. The Committee’s main recommendations were to replace the current criteria with a competition-based test, and for applications for licences to go to the Australian Competition Tribunal in the first instance, with rights of appeal to the full Federal Court. The Government has approved the adoption of a competition

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<sup>7</sup> Intellectual Property and Competition Report Committee, *Review of Intellectual Property legislation under the Competition Principles Agreement* (Final Report, Sept. 2001), <http://www.ipcr.gov.au/>. I chaired the Committee.

test *in addition to* but not in replacement of the current test, and has rejected the proposal to involve the Tribunal in the process.

21. As a result, it is expected that the Government will table a Bill amending the Patents Act to create scope for applications to be made to the Federal Court seeking a mandatory licence under that Act, on narrowly defined competition grounds and subject to fair and reasonable remuneration of the right-owners.<sup>8</sup>

#### **Trade Practices Act 1974**

22. While the IP statutes define the scope and limits of intellectual property rights, the Trade Practices Act imposes restrictions on the extent to which property rights of any kind may be exercised in manners which harm competition.
23. Two parts of the Trade Practices Act are relevant. One is Part IIIA, which establishes a third-party access regime. The other is Part IV, which concerns restrictive trade practices generally.
24. Loosely put, **Part IIIA** is intended to allow parties to seek access to 'essential facilities', that is to facilities that cannot be economically duplicated, are required for competition in a dependent market, and where access can be provided without risk to health or safety. Access to intellectual property is explicitly excluded from the scope of Part IIIA TPA, except to the extent that property is an integral but subsidiary part of a broader, non-exempt service to which access is sought (ss. 44B, 44F, 44H TPA).
25. The Intellectual Property and Competition Policy Review Committee commented on this exclusion. The Committee noted that although there is little statutory guidance as to the precise purpose of this exception, there is nonetheless a strong case for its existence. The Committee noted that the design of Part IIIA and of Part XIC of the Trade Practices Act (which establishes a third-party access regime in the

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<sup>8</sup> The IPCRC recommended that s. 133(2) PA be amended to include an order requiring a compulsory licence to be made if and only all of the following conditions are met: (a) access to the patented invention is required for competition in the (relevant) market; (b) there is a public interest in enhanced competition in that market; (c) reasonable requirements for such access have not been met; (d) the order will have the effect of allowing these reasonable requirements to be better met; and (e) the order will not compromise the legitimate interests of the patent owner, including that owner's right to share in the return society obtains from the owner's invention, and to benefit from any successive invention, made within the patent term, that relies on the patent. IPCRC (Final Report, Sept. 2001), 17, 162-163.

telecommunications industry), are poorly suited to handle intellectual property rights, which do not fit well into the “facility” and “service” concepts underpinning these provisions. In so far as refusals to license are anti-competitive, the Committee noted that remedies are to some extent provided for in the general provisions of Trade Practices Act. Moreover, the intellectual property statutes themselves can and in part do provide for third-party access, and to the degree to which greater rights of third-party access to intellectual property are desirable, should be reviewed in this light. The Government has accepted the Committee’s recommendation that the exclusion of intellectual property rights from the scope of Part IIIA should be retained.

26. Looking to **Part IV** of the Trade Practices Act, which covers restrictive trade practices, **section 46** provides a potentially powerful compulsory licensing tool. Section 46, which targets the misuse of substantial market power, essentially prohibits the use of that power in order to
- Eliminate or substantially damage a competitor,
  - Prevent the entry of another person (which includes a corporate entity) into that market or any other market; or
  - Deter or prevent a person from engaging in competitive conduct in that or any other market.
27. Establishing liability under the section requires showing that the conduct at issue involved the “taking advantage” of substantial market power, which broadly means that the conduct would not or could not have been entered into by a party that lacked that market power.<sup>9</sup> Although there is some disagreement as to whether the exercise of an intellectual property right can itself constitute “taking advantage” of market power, the more important point is that the mere fact that a refusal to supply involves intellectual property will not immunise conduct from section 46.
28. Some case law suggests that exercising intellectual property rights within their statutory limits will not breach section 46. For example, in *Australasian Performing Right Association Ltd v Ceridale Pty Ltd*, the Federal Court held that the Australasian

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<sup>9</sup> This test has no moral connotation in Australian law. *Queensland Wire Industries Pty Ltd v The Broken Hill Pty Co Ltd* (1989) 167 CLR 177, 194, 202 (High Ct).



Performing Right Association (or “APRA”), which is the licensing agency for the public performance of copyrighted music, had *not* “taken advantage” of its considerable market power in refusing to grant such a licence.<sup>10</sup> In that case, APRA refused to grant a licence to allow music to be played at a nightclub, until back fees owed to APRA were paid. The court held that APRA was simply exercising an “extraneous legal right”, namely to prevent “unauthorised use of its material and the integrity of its licensing system”, and thus did not violate section 46.

29. In another Federal Court case, *Broderbund Software Inc v Computermate Products (Australia) Pty Ltd*, Broderbund sought to terminate the unlawful parallel importation of “Where in the World is Carmen Sandiego?” educational software into Australia.<sup>11</sup> In response to a counter-claim alleging that Broderbund had breached section 46, the question of “taking advantage” was never considered, as the court was unable to find that Broderbund possessed a substantial degree of market power. Nevertheless, the court did suggest that even if such power had been established, Broderbund had not done more than was necessary to enforce its copyright as permitted by law.
30. However, High Court jurisprudence on section 46 provides strong authority that misuse of market power may compel licensing of intellectual property. In *Queensland Wire Industries Pty Ltd v The Broken Hill Pty Co Ltd*, the High Court of Australia found that BHP held substantial market power in the Australian steel industry, without which it would not have been able to withhold supply of a particular steel product to Queensland Wire.<sup>12</sup> BHP thus “took advantage” of its market power and breached section 46 of the Trade Practices Act. The primary question posed in their analysis was whether BHP would have refused to supply Queensland Wire in the absence of such market power.
31. Based on this holding, it appears that section 46 may require intellectual property licensing if a firm takes advantage of market power created by intellectual property

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<sup>10</sup> *Australasian Performing Right Association Ltd v Ceridale Pty Ltd* (1991) ATPR ¶ 41-074 (Fed Ct).

<sup>11</sup> *Broderbund Software Inc v Computermate Products (Australia) Pty Ltd* (1992) ATPR ¶ 41-155 (Fed Ct).

<sup>12</sup> *Queensland Wire Industries Pty Ltd v The Broken Hill Pty Co Ltd* (1989) 167 CLR 177 (High Ct).

rights, even though those rights themselves provide their owner with the ability to license, or refuse to license, as desired.

32. Following on this conclusion, the interaction of section 46 and treatment of **informational assets** under the Copyright Act is uncertain. In 1995, the Australian Competition and Consumer Commission (known as the “ACCC”) asserted that the refusal by the Commonwealth Bureau of Meteorology to supply basic meteorological information to a competitor breached section 46. In a settlement, the Bureau agreed to give direct access to the competitor, and established a general access policy and a model licence agreement.
33. In another dispute, Telstra had given legally enforceable undertakings to the ACCC, ensuring third-party access to its business telephone directory data, at a particular price. Although Telstra had noted that the price levels in the undertakings were much lower than what Telstra had first proposed, the ACCC maintained that Telstra would breach section 46 if it refused to supply the information on reasonable terms. It is interesting to note that the recent case of *Telstra Corporation Ltd v Desktop Marketing Systems Pty Ltd* established copyright in such telephone directories (though that decision is likely to be appealed to the High Court).<sup>13</sup> Combined with its undertakings to the ACCC, the result of this development is that Telstra might be compelled to license copyrighted material, which would not have been required under the Copyright Act itself.
34. Finally, in the case of *Pont Data Australia Pty Ltd v ASX Operations Pty Ltd*, the Australian Stock Exchange was held to have breached section 46, as a result of restricting the use of electronic stock exchange dealings information supplied to Pont Data.<sup>14</sup> No intellectual property issues were invoked in this case. The Federal Court, in coming to its decision, treated the property rights at issue as no different from other forms of property. The interim remedy imposed by the court was a licence at marginal cost, *i.e.*, zero.

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<sup>13</sup> *Telstra Corporation Ltd v Desktop Marketing Systems Pty Ltd* [2001] FCA 612 (Fed Ct).

<sup>14</sup> *Pont Data Australia Pty Ltd v ASX Operations Pty Ltd* (1990) 21 FCR 385 (Fed Ct, *per* Wilcox J), (1990) 27 FCR 460 (Full Fed Ct) (appeal ordered to stand over for further hearing on a date to be fixed).

35. In short, section 46 can provide a remedy for situations in which firms that have a significant degree of market power refuse to license intellectual property with the purpose of harming the competitive process.
36. It is relevant to note that the Government recently established a review of the provisions of Part IV of the Trade Practices Act, which may lead to changes in section 46. In particular, the ACCC has proposed that the current purpose test be replaced or paralleled by an “effects” test, in which liability would be established if it were shown that the conduct had the effect or likely effect of harming the competitive process.

## **C Conclusions**

37. In conclusion, under Australian law there are a number of possible bases for compelling intellectual property licensing. The most significant of these is probably section 46 of the Trade Practices Act, although it has also been argued that the Patents Act provisions have considerable value as incentives to reach voluntary licensing agreements. The relationship between competition law and intellectual property rights is still at issue in Australia, and the treatment of intellectual property under the Trade Practices Act deserves, and will undoubtedly receive, further consideration and resolution.